healthleaders

How Mass General Brigham is Fighting Inflation and Labor Shortages

By Amanda Schiavo

October 11, 2022

Hospitals and health systems are under mounting pressure to reduce costs, enhance the labor force, and improve the quality of healthcare services for patients. But rising inflation and worker shortages are making these tasks more challenging.

Labor costs account for around 50% of a hospital's costs and supply chain expenditures make up 20% of hospital costs, according to the American Hospital Association. Mass General Brigham—a Boston-based health system with 13 hospitals and $14 billion in total patient revenue—has been dealing with these financial challenges since the start of the pandemic. CFO Niyum Gandhi recently connected with HealthLeaders to discuss the solutions the organization has put in place to overcome inflation and support its workforce.

HealthLeaders: How has inflation affected Mass General Brigham?

Niyum Gandhi: It's been very challenging. Inflation is at the highest level it's been in 41 years. It's important to note that the last time inflation was this high, hospitals were still paying the cost-plus. The DRG hadn't been invented. We submitted our cost report to Medicare and had our reimbursement adjusted based on it. That's why hospitals are now no longer paid cost-plus, because of the persistent inflation in the late 70s and early 80s. And of course, by the time the new payment model was released, inflation was back down to 3.2%. It's not exceeded six-and-change until recently.

Hospitals, post-acute facilities, and physician practices were not built for inflation. We don't increase our prices relative to inflation—we have a commitment to affordability— but even if we didn't [have that commitment], we couldn't increase our prices in a manner that counteracts inflation.

One of the biggest challenges we're having is that our supply costs are growing faster than our revenues. We do our best to make sure we're managing non-labor costs effectively through the way that we contract. But at a certain point, there is nothing we can do when individual supply costs go up faster than our revenue per unit of service. It's compounded by the fact that now in a post-peak pandemic world, we have a greater emphasis on supply chain resiliency.

The bigger impact has been on labor. About 60% to 65% of our cost structure is labor. We're the largest employer in Massachusetts. It's important to us to make sure that our wages keep pace with what our employees need. When employees are seeing percent increases in the costs in their personal lives, we need to try to get at least as close to that as possible on the wage side. And employees are making decisions to leave healthcare because of the challenges of the pandemic as well. And so our wage costs have increased significantly.

HL: What has Mass General Brigham's financial well-being been like over the course of the pandemic?

Gandhi: Our financial performance is significantly worse than it has been in recent years. We're not alone in that. But we're also taking a sharper look at areas where we can be more efficient. We are on a journey to integrate our system and create efficiencies by combining clinical services across the organization. Adhering to common protocols across the system and moving sites of service to lower-cost settings are all things that some others in the industry were doing maybe five to 10 years ago, and we've just been a little bit later to do because we weren't really set up to be an integrated system until relatively recently. And so, we're trying to realize those efficiencies as quickly as possible, while also investing in the future and dealing with the significant growth in both labor and non-labor expenses.

HL: As CFO, what creative solutions to the organization's financial challenges are you needing to explore?

Gandhi: One of the things that I think as an industry we've fallen behind on is focusing on places where we can make investments that improve the productivity of our employees. We have a big focus on intelligent automation right now to take the rote and lower-value work off our employees' plates, so they can focus on the things where they add value. Many other industries had been earlier to adopt automation and intelligent automation than healthcare has. We're emphasizing that significantly, especially in the back-office areas. This reduces cost trends as well, by allowing our employees to be more efficient and focus on the places where they can have the greatest value. It also shifts some of our cost structure long term more towards non-labor, scalable costs, rather than labor costs where for every additional transaction process we need "X" percent more employees. We can absorb the growth with the same number of employees without making them work harder. Giving them the tools so that they can work more easily and more effectively across a broader range makes us a little bit more inflation resilient for the future as well.

HL: Looking back at everything that has happened over the last few years, what do you predict 2023 will have in store for the financial well-being of hospitals and health systems?

Gandhi: For most health systems, 2022 is going to be the worst financial year in their history. In 2023, we'll see some improvement as organizations implement the types of strategies I was talking about, as well as others that make sense for their environment. What inflation is highlighting in the macroeconomic environment is that it's exacerbating the structural gap between revenue growth and expense growth. We've had this for over a decade, where revenue per unit of service has grown slower than cost per unit of service. We've just found a way to become 1% more efficient every year. And so, if revenue per unit of service is growing at 2%, and the cost is growing at 3%, we can close that 1% gap every year by becoming a little bit more efficient. So, what's happening right now is an acceleration of a secular trend, which means we can't stop investing in structural solutions for the future.

What I mean by that is that historically for health systems there has been a lot of cross-subsidization going on. You make money in one area so that you can fulfill your missions in other areas. And I think, because of the commitment to affordability, the structural gap between clinical revenue growth and clinical expense growth will continue. So, we need new ways to fund the mission and we're focused on that in terms of finding other opportunities for revenue generation, whether they be outside of direct patient care, whether they be growing the commercialization of our research, intellectual property, getting into new services, etc. The systems that are long-term focused will probably have slightly worse 2023 financials because they won't have let up on the gas on the investments that they need to make for 2024 through 2028.